Economics and Sociology
Occasional Paper No. 2182

RURAL NONFARM ENTERPRISES AND FINANCIAL MARKETS IN SUB-SAHARAN AFRICA

by

Richard L. Meyer,

Mayada M. Baydas,

Korotoumou Ouattara

and

Geetha Nagarajan

November 1994

Paper presented at the Biennial Conference
of the African Studies Association of the UK
University of Lancaster, September 5-7, 1994

Centre for the Study of African Economies
University of Oxford, Oxford, U.K.
and
Rural Finance Program
Department of Agricultural Economics
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210-1099

Abstract

Micro and small scale enterprises (MSSEs) are increasingly recognized as being extremely important in most Sub-Saharan African economies, but they have been largely overlooked in the design and implementation of credit programs for rural areas. This paper reviews the literature to determine the importance of nonfarm enterprises in rural areas, the determinants of their growth and performance, the ways in which they finance their operations, the influence of imperfections in financial markets on these enterprises, and the policy implications that are derived from the analysis.

RURAL NONFARM ENTERPRISES AND FINANCIAL MARKETS IN SUB-SAHARAN AFRICA

by

Richard L. Meyer, Mayada M. Baydas, Korotoumou Ouattara and Geetha Nagarajan

I. Introduction

Micro and small scale enterprises (MSSEs) are increasingly recognized as being extremely important in both the rural and urban economies of most Sub-Saharan African countries. As occurred in Asia a decade or so ago (Meyer), analysts and policy makers have begun to realize that African MSSEs are more important than previously thought, are responsible for the majority of new jobs created, especially in urban areas, and are an important source of survival income for many poor people. Furthermore, research has shown that nonfarm enterprises generally, many of which are MSSEs, provide primary and secondary employment for a large proportion of the rural population. A significant proportion of farm households allocate part of their labor time during the year to nonfarm enterprises, and the earnings received from them represent an important share of total household income. These earnings have been shown to be important sources of financing for both farm and nonfarm activities for those households who lack access to formal financial services.

In spite of their importance, MSSEs have been largely overlooked in the design and implementation of special credit programs for either rural or urban areas. Most programs and policies designed to support economic activities have been aimed at meeting the supposed financial needs of farms, larger industrial firms, and parastatal organizations. The recent interest in the needs and problems of the agricultural and the informal sectors of many Sub-Saharan

African economies has prompted a closer look at MSSEs. Three strands of literature have emerged in recent years which provide us with new insights into the role and importance of MSSEs, and especially those located in rural areas. The first are the agricultural growth linkage studies which analyze how production and consumption linkages determine the pattern and growth of rural nonfarm enterprises. The second area of research has analyzed multiple job holding by farm households and the role of nonfarm enterprises in diversifying farm household incomes. The third are MSSE studies which have involved the careful enumeration of enterprises located in both large and small settlements. These latter studies have often attempted to analyze the role and economic performance of small scale firms relative to larger firms in various economic subsectors.

This paper reviews some of the key findings of this recent literature. It is organized to address five interrelated questions:

1. How important are nonfarm enterprises in rural areas of Sub-Saharan Africa?
2. What explains the growth and performance of rural nonfarm enterprises?
3. How do rural nonfarm enterprises finance their operations?
4. How do imperfections in rural financial markets influence rural nonfarm enterprises?
5. What policy implications are derived from the analysis?

Unfortunately, the studies reviewed do not always contain the data desired about key characteristics and problems of rural enterprises. Therefore, some information will be utilized from peri-urban and urban studies of MSSEs to draw inferences about rural areas. The analysis of rural nonfarm enterprises is further complicated by the fact that they often represent second or third priority activities of households whose main activity is farming. This makes it

conceptually difficult to separate production and consumption activities on farms, and the sources and uses of funds given the fungibility of resources within the household decision making unit.

II. Importance of Rural Nonfarm Enterprises

It is surprisingly difficult to develop a clear picture of the nature, characteristics and importance of MSSEs specifically and nonfarm enterprises generally in the rural economy of Sub-Saharan Africa in spite of an abundance of studies. The papers by Haggblade et al. and Mackinnon (1991a) represent comprehensive attempts to summarize key material found in the literature.

Generalizations are difficult, however, because each study reviewed has a particular objective, domain and methodology to fit its unique purpose, and each adopts a specific set of definitions. For example, Mackinnon (1991a) noted several definitional issues in his careful review of selected rural household studies. Measurements can be made of income, employment or time allocation. One of the first issues is the question of what products to include when analyzing the nonfarm sector: total output regardless of its use or destination, or simply that portion which is marketed or marketable. Haggblade et al. argue that one reason for the observed smaller agricultural growth linkages in Africa compared to Asia may be due to measurement bias because many African goods and services are bartered so they are not measured.

Second is the question of how to define "farm," "nonfarm" and "off-farm". Household studies that attempt to quantify the importance of "off-farm," for example, may lump together all activities pursued and incomes generated by the household outside of its agricultural

production. Therefore wages earned and transfers received are aggregated with earnings from nonfarm enterprises of the household. But unless these three categories of income are separated, policy implications about enterprise development drawn from reports of off-farm income could be seriously misleading if, in fact, the income reported was actually earned from wage labor.

The classification of time allocation or income earned by the household into farm and nonfarm categories is also problematic. For example, Mackinnon (1991a) chose to regard livestock raising as part of agriculture so it is classified as "farm" in his analysis. This is consistent with Haggblade, et al. who consider nonfarm to include all economic activity other than crop and livestock production. Cattle raising would seem to clearly fit most definitions of agriculture, but what about preparing and marketing cheese as a by-product of goat or cattle raising? Haggblade et al. would probably classify this production as nonfarm because they define it to include agroindustrial activities which store, process and market agricultural commodities. By analogy, presumably the production of plant fibers would be defined as farming while basket weaving, using straw or bamboo produced on the farm, would be treated as "nonfarm" or "off-farm".

Measurement problems also exist when nonfarm enterprises are viewed from the perspective of industry rather than agriculture. Many small scale industry and small and medium enterprise surveys have been conducted. Most have an urban focus even though research shows that many small scale firms exist in rural areas. Liedholm, Mead, and others at Michigan State University have spearheaded much of this work in Sub-Saharan Africa. To avoid the undercounting of small enterprises that often occurs in industry surveys, these researchers often first conduct a street-by-street census of all enterprises, many of which operate in households,

in selected "compact clusters" before selecting specific enterprises for detailed enumeration (Liedholm and Mead, 1987). The clusters are drawn from localities as small as less than 2,000 inhabitants in population. Differences in rural settlement patterns, however, will influence their survey results even with the selection of small localities. In The Gambia where farmers reside in villages, the selection of a rural village as the locality for census enumeration will produce results showing that most households earn most of their income and allocate most of their time to farming. In Swaziland, however, farmers live in dispersed patterns close to their farm plots, so rural villages probably have a greater proportion of households earning relatively more of their income and allocating more of their time to nonfarm activities.

With these caveats in mind, it is useful to summarize the general findings of the Mackinnon and Haggblade et al. studies. The following key conclusions emerge from Mackinnon's (1991a) review (p. 33) of off-farm activities in Africa which include, but are not limited to, nonfarm enterprises.

1. Off-farm activities are important for many, and in some cases, most rural households. Most households, however, are not overwhelmingly dependant on off-farm incomes, but there is a minority of vulnerable households, particularly female-headed and elderly, which depend on remittances.
2. Many off-farm activities are underestimated because they involve women who are either not interviewed in surveys or when interviewed may be reluctant to reveal their earnings.
3. Off-farm earnings are reported at all levels of income. Profits from own businesses are associated with high household income in some countries and low incomes in others.

4. Some off-farm activities are expanding, while others are contracting. Most of their output is locally consumed, and the promotion of the rural off-farm sector may require an expansion in external markets for their output.

Haggblade et al. resolved some of the measurement problems by analyzing employment densities per 1,000 population which permitted a comparison of absolute intensity levels for all activities enumerated. They concluded that rural nonfarm enterprises provide the primary sources of employment for between 3 and 60% of the labor force in rural Sub-Saharan Africa, and secondary employment for an additional 7-30% of rural workers. An estimated 20-40% of the rural labor force works in both farm and nonfarm activities with the seasonality of the agricultural calendar affecting labor flows between the two. The nonfarm share of rural employment typically falls in the 10-20% range. Nonfarm sources often provide rural inhabitants with 25-30% of their income.

III. The Growth and Performance of Rural Nonfarm Enterprises

Several studies contribute to our understanding of the patterns of growth and performance of rural nonfarm enterprises. Mackinnon (1991b) analyzed why households choose to participate in the off-farm sector. He used a household decision-making framework for the allocation of time and other resources to marketable goods. He was particularly concerned about why few rural households tend to specialize in off-farm activities. He found support for a variety of explanations including diminishing returns due to land market imperfections and large start-up costs for many activities, imperfections in financial and insurance markets which prevent specialization, seasonality in agricultural labor demand with a low opportunity cost of time in

the off-season which can be allocated to low return nonfarm activities, and occupational specialization by different members of the household as a function of education, experience and gender roles.

Bagachwa and Stewart, and Haggblade et al. used the growth linkage framework to analyze how consumption and backward and forward production linkages determine the magnitude of agricultural growth linkages and the pattern of rural nonfarm enterprises that emerge in Africa. Consumption linkages result from the expenditure of farm incomes on locally produced goods and services. Backward production linkages occur when agriculture uses inputs produced by local industry, and forward production linkages occur when local industries use as inputs locally produced agricultural output. Bagachwa and Stewart also note the linkages which run from industry to agriculture. There are three types: the demand for agricultural products by the non-agricultural sector, the supply of production related inputs for agriculture, and the motivation of farmers to raise agricultural output in order to invest in industry or acquire non-agricultural consumer goods.

The magnitude of consumption linkages in Africa appear to be less than in Asia because there is a much greater propensity to spend on food in Africa, probably due to lower average incomes (Bagachwa and Stewart). The distribution of income and assets (ex. land and livestock) will likely influence consumption linkages. Higher income households can be expected to spend a smaller proportion of income on food than will lower income households, and within food a lower proportion on locally produced food. Likewise, small holder agriculture probably generates higher consumption linkages than plantations. The mix of labor and capital used in production will also have an influence because labor income tends to be spent locally.

Backward linkages from agriculture to rural industry are also lower in Africa than Asia because of the mutually reinforcing problems of a lower use of inputs in agriculture, and a lower capacity to produce production inputs locally. Small farm agriculture may generate more backward linkages than large farms because proportionately more locally produced hand tools are used relative to imported machinery. Forward linkages in Africa tend to be bigger than backward linkages (Haggblade et al.). Food processing represents a significant proportion of rural industries. These linkages are influenced by the choice and location of processing technology, and many post-harvesting processes (eg. rice milling, oil crushing, cotton ginning) are labor intensive (Bagachwa and Stewart).

Changes in the level and distribution of African incomes during the past few years should have had an impact on the nature and magnitude of the intersectoral linkages measured in a country, and the number and type of rural nonfarm enterprises enumerated. Baker and Claeson summarize a paper by Jamal and Weeks in which they argue that the economic contraction that occurred in many African economies beginning in the 1970s resulted in a decline in urban formal employment and real incomes so the rural-urban income gap narrowed. In countries where this occurred, the dynamics of rural-urban relationships should have been affected leading to developments such as a shift in urban consumption from high income elasticity products (e.g. meat, milk and fruit) to more inexpensive products, increasing food production in peri-urban areas in and around cities, and more moonlighting and multiple jobholding. It would have also contributed to the observed proliferation of informal sector activities (Hugon), and increased the number of small nonfarm activities reported in surveys. It is likely, however, that many new activities would have been survival oriented rather than dynamic enterprises created in response

to new market opportunities. Petty trading flourishes, for example, and there are widespread reports of employees in offices engaging in the sale of consumer goods to fellow employees.

Liedholm (1992) summarized the studies which analyze small scale industry in Africa. He concluded that the overwhelming majority of industrial firms are small, and most employment is generated by microenterprises, the majority of which employ fewer than five persons. Many are one person enterprises. On the other hand, there is a missing middle with relatively few firms in the ten to fifty worker category. The small firms are concentrated in the production of light consumer goods such as clothing, furniture, food and beverages, and the vast majority are located in rural areas.

Liedholm (1993) also reviewed the limited information available on the birth and death rates of firms. His stylized conclusion is that the typical firm starts very small - usually a one-person operation - and faces an initial three years of struggle with little growth and a high probability of failure. If it survives the first three years when failure rates are highest, it will likely experience a growth spurt and move up the size classification of small firms. Relatively few, however, actually graduate into more complex modern small or medium enterprises. It appears that many of the modern small and medium enterprises started with more than 10 workers rather than evolving from small microenterprises. This conclusion must be viewed with caution, however, because of the dearth of studies which track specific entrepreneurs and firms over time. It is unclear how many micro or small enterprises fail but subsequently reemerge in the birth of another small enterprise which does grow.

A wide variety of factors and constraints have been offered to explain the performance of the rural nonfarm sector and small scale enterprises. The most frequently cited examples include the following:

1. Agricultural policies that favor large scale rather than small scale farms (Haggblade and Hazell), that encourage export over food crop production and small scale rather than large scale food processing technologies (Bagachwa and Stewart), and that create parastatal marketing monopolies that operate large centralized processing and storage centers and discourage local trading and processing (Pedersen).
2. Trade, exchange rate, tax, labor, and industrial policies, regulations and incentives that favor industry over agriculture, and large industrial firms over small ones (Liedholm and Mead; Liedholm, 1992).
3. Urbanization and infrastructure investments which benefit urban areas over rural, and large and medium towns over small ones (Baker and Claeson; Haggblade et al.).

When asked about their most serious problem or constraint, entrepreneurs often report lack of adequate credit, either for investment purposes or for working capital (Levy, 1993; Liedholm and Mead).[1] Although self perceptions can be faulty and entrepreneurs may give answers they think that interviewers want to hear, the issues of how enterprises fund themselves and the possible impact of credit constraints are important. They will be discussed in the next sections.

---

[1] Interestingly, the Kenya study by Parker reported interviews with entrepreneurs whose firms had closed. Working capital shortages represented only 14 percent of the responses, compared to 30 percent due to market saturation or low demand, and 25 percent due to difficulty in accessing nonfinancial inputs.

IV. Financial Patterns of MSSEs

A number of studies report fragmentary data which provide insights into the financial structure of MSSEs and the nature of financial problems which they may face. Liedholm and Mead summarized the financial data collected in several of their small enterprise surveys which included firms located in small towns. Their analysis revealed that the capital stock of small sized firms tended to be small, ranging from $654 per firm in Sierra Leone to $4,225 in Jamaica. The capital stock also varied by type of enterprise and by location. In Sierra Leone, for example, it ranged from $89 in gara (tie) dying to $2,079 in metal working. Within the metal working category, the capital stock ranged from $180 in the smallest rural village to $2,600 in Freetown. Most of the capital stock in these enterprises was held in the form of fixed capital while working capital generally represented only a small proportion of the total. Own savings were the overwhelming source of the start-up funds for these enterprises. Commercial sources, including banks, rarely made up 1 percent of the total. Informal finance, when important, came mainly from relatives. Retained earnings provided most of the funds used for business expansion.

Many authors, including Liedholm and Mead, emphasize the nascent state of Sub-Saharan Africa's financial markets as the explanation for the limited amount of formal credit used by MSSEs. Others have argued, however, that this explanation overlooks entrepreneurial preferences for various sources of capital. An entrepreneur's use of alternative financial instruments can be expected to be influenced by a number of factors that involve both demand and supply considerations. The structure of assets and liabilities of a firm will be influenced by the characteristics of the enterprise, the attributes of the entrepreneur, the rates of return paid

on financial savings and charged on loans, the transaction costs of using alternative sources of financing, and the respective shares of these financial assets and liabilities in total expenditures over the production period (Baydas). Myers is credited with the concept of the capital pecking order in which it is argued that equity will be chosen over debt capital because of the risk of losing the firm in the event of shortfalls in income. This makes formal loans the most risky source of funding for a firm. Furthermore, McLeod observed that small firms in Indonesia followed a pattern in which a firm started with savings and/or informal loans, then as it demonstrated that it could survive it would likely get access to small formal loans. If the repayment of these initial loans proved satisfactory, the formal lenders would likely grant them larger loans.

Baydas argued that the nature of the output and input linkages found among economic agents—producers, traders, and consumers—varies by economic subsector, and these differences should affect the financial contracts available to entrepreneurs. She tested this concept in a study of micro, small and medium scale enterprises in periurban areas in The Gambia in 1992. These periurban areas were located fairly close to banking facilities so the entrepreneurs had much better physical access to formal finance than did farm and nonfarm enterprises in the rural areas of the country. The sample included bakeries, both traditional and modern, metal workshops, tailoring workshops and tie-dye producers. The average firm had been in operation for 10 years, and the entrepreneurs had an average of five years of business before starting the firm. The detailed results are reported in Table 1. They show the proportion of the sample firms which reported using the indicated source of funds in their original start up and in their current working capital.

The results in Table 1 show clear differences across the four subsectors. Loans from formal sources were largely limited to modern bakeries which benefitted from a special program. Informal loans, including family and friends, were fairly important for all types of firms, but trade credit including suppliers credit and customer advances were by far the most frequently reported source of borrowed resources. Trade credit, however, varied systematically by subsector. For example, flour distribution is quite competitive and the distributors typically offer suppliers credit to their customers. As a result, most bakeries reported this source of funding. On the other hand, firms such as metal and tailor workshops produce custom ordered products which may have little salvage value if the customer fails to take delivery and pay for the order. Therefore, they generally required their customers to make some type of good faith down payment before starting to fill the order. The funds obtained from these down payments contribute to the working capital used by the firms to purchase the supplies needed to fill the order.

At the same time as Baydas collected data from periurban firms, Ouattara collected financial data from farm households in villages located far from formal financial institutions in The Gambia. Due to the urban bias of the banking system, several donor and government projects supplied loans in the region. In spite of these projects, most villagers reported borrowing from and lending to each other, or borrowing from traders. Part of the explanation was due to the fact that many of the projects lent exclusively in kind rather than in cash as preferred by borrowers. Furthermore, many of the loans were targeted for specific purposes which precluded nonfarm enterprises even though on average the villagers reported larger off-farm income than farm income (828 dalasis compared to 351).

Cuevas et al. studied trade credit in great detail in a 1992 survey of urban enterprises in Ghana. They were particularly interested in the concept of a trade credit multiplier in which larger firms with access to the formal banking sector would provide trade credit to smaller firms. Ghana is well known for a wide variety of informal financial agents as well as a history of intervention into the formal financial institutions for purposes of directing credit to preferred sectors including small scale enterprises (Aryeetey). The interventions most relevant to this analysis were preferential interest rates and favorable credit ceilings for loans made to priority enterprises. In spite of these interventions, most industrial or small enterprise surveys conducted in the country reported high proportions of firms citing lack of access to credit as a major constraint (Cuevas et al.).

The Cuevas et al. results were similar to those reported above for the periurban firms in The Gambia. Most of the firms in Ghana that made recent capital investments financed them with savings and retained earnings. Only the largest firms with over 51 workers financed a larger share of their investments with debt than with internal funds. The composition of current debt reported by the firms was analyzed by firm size and the results are presented in Table 2. The smallest firms with 10 or less employees reported only seven percent of their debt owed to banks compared to 66 percent for the large firms. The small firms reported another 27 percent of their debt owed to family and friends. On the other hand, trade credit represented about two-thirds of the debt outstanding for both small and medium firms. About a third of the large firm debt was trade credit so these firms succeeded in using debt from both formal and informal sources whereas the smallest firms relied almost exclusively on informal finance.

A subset of 186 firms in the Ghana data set was analyzed to determine the pattern of credit received and granted by firm size. Over 80 percent of the large firms reported giving credit to clients regularly, compared to 52 percent of the small firms. However, a larger proportion of the large firms reported purchasing regularly on credit (51 compared to 40 percent for small firms), while about the same proportion (32 compared to 36 percent) reported receiving prepayments regularly. These data suggest that larger firms provide a larger proportion of their clients with credit than do small firms, but they also get more informal credit from their suppliers and customers. Therefore, a trade credit multiplier exists but its magnitude may be somewhat smaller than anticipated.

Although the studies reviewed do not provide clear data on the financial patterns of rural nonfarm enterprises, enough similarities probably exist so that the findings of the MSSE studies are relevant. Small firms report a larger proportion of borrowing from informal sources than larger firms, while the reverse is true of bank loans. Small firms report fewer bank loans than do larger firms, and they are also less likely to provide credit to their customers. Retained earnings, own savings and loans from friends and relatives represent the majority of funds used for start up and initial capital investments for all firms, but especially for small firms. Although several explanations are given for these patterns, the lack of formal loans for small firms is often attributed to the formal lenders being too risk averse to lend to MSSEs and rural nonfarm enterprises. The question remains, however, as to whether or not it is credit supply constraints or loan demand that really explains these funding patterns.

V. Financial Market Imperfections and MSSEs

Many of the interventions made in financial markets in Sub-Saharan African countries have been justified on the assumption of market failure, that is commercial lenders, especially bankers, were considered too risk averse to lend to small scale entrepreneurs. If they did make loans, the terms and conditions were considered to be too severe for poor entrepreneurs. The recent literature, however, has questioned the wisdom of such an intervention, and emphasized instead the high transaction costs incurred by lenders making small loans to firms with which they have had no previous working relationship. The costs of acquiring information needed for loan screening, evaluation and monitoring are high, so the interest rate ceilings employed to protect small firms actually hurt their chances of getting loans because they prevent lenders from setting interest rates high enough to cover their costs. Therefore, financial deregulation and liberalization are proposed as logical policy alternatives to provide incentives for lenders to service this sector of the economy.

Many countries have embarked on the path of financial reform but the initial results have tended to be disappointing. Loans to agriculture and to small scale firms have often declined rather than expand as predicted by the theory. This has contributed to a severe questioning of the entire process of structural adjustment that the World Bank and IMF have imposed as conditions for receiving financial assistance.

Two issues need to be evaluated before rejecting the proposed reforms. The first is that several countries have recently introduced treasury bills and other monetary instruments as part of their monetary control policies. However, some of their macroeconomic problems still exist, such as budget deficits, which means that the rate paid on t-bills must be relatively high.

Financial institutions, therefore, have a good, risk-free instrument in which to invest their funds. There is little incentive in this type of environment for them to aggressively move into riskier lending operations. Secondly, lenders still face high information costs in lending. They must sort among the firms that desire funds to respond to good business prospects from those desiring to borrow to hang on to failing enterprises (Collier). Furthermore, some potentially profitable firms may avoid borrowing because they doubt the credibility of governmental reforms. In this environment, trade credit may not contribute much of an increase in the total supply of funds for small firms. Small firms which lack a track record with formal lenders may face external credit rationing even in liberalized markets.

VI. Policy Implications

MSSEs and rural nonfarm enterprises have been shown to be an important part of the rural and urban economies in Sub-Saharan Africa. The data available on their financial patterns show that they rely much more on informal finance that their larger sized counterparts in the economy. This evidence is consistent with the argument that lenders are risk averse in their lending decisions. The results can also be explained, however, by expectations about the choices that entrepreneurs make in a risky environment. Undoubtedly, there exist some small firms that are very creditworthy but are denied bank loans because of the information problem faced by the lenders. It is also true, however, that many small firms will choose to use equity funds and retained earnings before borrowing, and when they borrow they will choose informal sources over formal ones.

What is needed is an economic environment that will encourage formal lending for small scale firms to emerge as part of regular commercial business practice. Financial reforms are a necessary condition for this to happen. There will continue to be scope, however, for experiments to be conducted on alternative delivery systems of financial services for persons and firms considered to be too risky and costly to be serviced by commercial lenders.[2] No single successful model yet exists for these delivery systems. Many experiments are being conducted. Some of them may eventually reveal techniques that can be emulated by commercial lenders. In other cases, some firms will graduate from special programs and begin to get services from commercial sources.

A basic problem will always remain for the financing of MSSEs. Low barriers to entry in many economic subsectors imply that many new MSSEs will be created as poor households attempt to improve their economic situation. Many of these firms will fail. Information problems will always make it difficult for commercial lenders to sort out potential winners from losers. Informal finance, therefore, will always be the most important source of loans for new firms. Only when they have established a business track record can they hope to access formal finance.

---

[2] The thesis by Burnett provides a good review of the history of the debates over the merits of alternative models for providing financial services to the poor and to small scale enterprises.

Table 1. Sources of Funds For Initial Capital and Current Operations by Subsector, The Gambia.

Sources of Funds for Initial Capital	Bakeries		Metal Workshops	Tailor Workshops	Tie-Dye Producers
	Modern	Traditional			
			(percent)		
Personal Investment from Savings	15.4	69.2	2.1	48	55
Family	7.7	11.5	7.9	34	27.5
Friends	0	0	0	5.6	2.5
Formal Loan	76.9	0	0	2.8	9.5
Supplier Loan	7.7	19.2	0	0	12.5
Sources of Funds for Current Operations					
Retained Earnings	100	100	100	100	100
Informal Loans	54	69	68	50	85
Formal Loans	59	0	10	39	22
Supplier Credit	85	81	0	22	27
Customer Credit/Advance	0	0	97	92	50

Source: OSU Enterprise Survey, Baydas et. al.
Note: % corresponds to percentage of the sample.

Table 2. Average Shares of Sources of Total Debt Outstanding by Firm Size, Ghana.

Sources of Finance	Firm Size		
	Small	Medium	Large
		(percent of total)	
Banks	7	24	66
Trade Credit	66	64	32
Suppliers	20	36	21
Clients	46	28	10
Family and Friends	27	12	2

Source: Cuevas et al., RPED Case Studies, Ghana 1193.
a Includes only firms with non-zero debt, N=33.
b Firm size by number of employees: Small, 1-10; Medium, 11-50; Large, 51+/.

REFERENCES

Aryeetey, Ernest, "Sectoral Credit Allocation Policy and Credit Flow to Small Enterprises in Ghana" in Small Enterprise and Changing Policies: Structural Adjustment, Financial Policy, and Assistance Programmes in Africa, A. H. J. Helmsing and Th. Kolstee (eds.), London: Intermediate Technology Publications, 1993, pp. 187-203.

Baker, Jonathan and Claes-Fredrik Claeson, "Introduction," in Small Town Africa: Studies in Rural-Urban Interaction, Jonathan Baker (ed.), Uppsala: The Scandinavian Institute of African Studies, 1990, pp. 17-33.

Bagachwa, M. S. D. and Frances Stewart, "Rural Industries and Rural Linkages in Subsaharan Africa: A Survey," in Alternative Development Strategies in Subsaharan Africa, Frances Stewart, Sanjay Lal, and Samuel Wangwe (eds.), Macmillan Press, Ltd., 1992, pp. 145-183.

Baydas, Mayada M., "Capital Structure and Asset Portfolio Choice Among Micro, Small and Medium Scale Manufacturing Enterprises in The Gambia," Unpublished Ph.D. dissertation, Department of Agricultural Economics, Ohio State University, Columbus, Ohio, 1993.

Baydas, Mayada M. and Richard L. Meyer, "Financing Non-Farm Enterprises: Use of Sub-Sector Analysis in The Gambia," Unpublished paper, Department of Agricultural Economics, Ohio State University, Columbus, July, 1994.

Baydas, Mayada M. et al., "Alternative Financial Networks: The Small Scale Enterprise Sector in The Gambia," in "Financial Markets in The Gambia, 1981-1991," Douglas H. Graham, Richard L. Meyer, and Carlos E. Cuevas (eds.), Report prepared for the USAID Mission in The Gambia, Department of Agricultural Economics, Ohio State University, Columbus, Ohio, December, 1992.

Burnett, Jill, "NGO Roles in Expanding Financial Services For The Poor, With a Case Study of Ghana," Draft thesis submitted to the Faculty of Anthropolgy and Geography, University of Oxford, 1994.

Collier, Paul, "African Financial Liberalisations," Unpublished paper, Centre for the Study of African Economies, University of Oxford, Oxford, September, 1993.

Cuevas, Carlos, et al., "Case Studies of Enterprise Finance in Ghana," Paper prepared for the Regional Program on Enterprise Development, World Bank, Washington, D. C., May 1993.

Haggblade, Steven and Peter Hazell, "Agricultural Technology and Farm-Nonfarm Growth Linkages," Agricultural Economics, Vol. 3, 1989, pp. 345-364.

Haggblade, Stevan, Peter Hazell and James Brown, "Farm-Nonfarm Linkages in Rural Sub-Saharan Africa," World Development, Vol.17, No.8, 1989, pp.1173-1201.

Hugon, P., "The Informal Sector Revisited (In Africa)," in The Informal Sector Revisited, David Turnham et al. (eds.), Organisation of Economic Co-operation and Development, Paris, 1990.

Jamal, Vali and John Weeks, "The Vanishing Rural-Urban Gap in Sub-Saharan Africa," International Labour Review, Vol. 127, No. 3, 1988.

Levy, Brian, "Obstacles to Developing Indigenous Small and Medium Enterprises: An Empirical Assessment," The World Bank Economic Review, Vol. 7, No. 1, 1993, pp. 65-83.

Liedholm, Carl, "Small-scale Industry in Africa: Dynamic Issues and the Role of Policy," in Alternative Development Strategies in Subsaharan Africa, Frances Stewart, Sanjay Lal, and Samuel Wangwe (eds.), Macmillan Press, Ltd., 1992, pp. 185-212.

Liedholm, Carl, "Small and Microenterprise Dynamics and Evolving Role of Finance," in Small Enterprise and Changing Policies: Structural Adjustment, Financial Policy, and Assistance Programmes in Africa, A. H. J. Helmsing and Th. Kolstee (eds.), London: Intermediate Technology Publications, 1993, pp. 261-276.

Liedholm, Carl and Donald Mead, "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications," MSU International Development Papers, Paper No. 9, Department of Agricultural Economics, Michigan State University, East Lansing, Michigan, 1987.

Mackinnon, John, "Off-farm Activities in Rural Areas in Sub-Saharan Africa: Description and Analysis," Mimeo, Food Studies Group, University of Oxford, Oxford, January, 1991a.

Mackinnon, John, "Why Do Rural Households in Africa Undertake Off-farm Activities," Mimeo, Food Studies Group, University of Oxford, Oxford, January, 1991b.

McLeod, Ross L., "The Financial Evolution of Small Business in Indonesia," in Informal Finance in Low-Income Countries, Dale W Adams and Delbert A. Fitchett (eds.), Westview Press, Boulder, 1991, pp. 249-264.

Meyer, Richard L., "Financing Rural Nonfarm Enterprises: Implications for Asia," in Measures For Rural Employment Generation, Asian Productivity Organization, Tokyo, 1991, pp. 105-129.

Myers, Stewart C., "The Capital Structure Puzzle," The Journal of Finance, Vol. 39, No. 3, July, 1985, pp. 575-592.

Ouattara, Korotoumou, "Credit, Risk, and Insurance in Rural Gambia," Unpublished Ph. D. dissertation, Department of Agricultural Economics, Ohio State University, Columbus, Ohio, 1994.

Oyejide, T. A., "Financial Liberalization Under Structural Adjustment and its Implications for Financing Small-scale and Microenterprises in Nigeria," in Small Enterprise and Changing Policies: Structural Adjustment, Financial Policy, and Assistance Programmes in Africa, A. H. J. Helmsing and Th. Kolstee (eds.), London: Intermediate Technology Publications, 1993, pp. 204-213.

Parker, Joan C. with Tanya R. Torres, "Micro- and Small-Scale Enterprises in Kenya: Results of the 1993 National Baseline Survey," Gemini Technical Report No. 75, Development Alternatives Inc., Bethesda, Maryland, March, 1994.

Pederson, Poul Ove, "Agricultural Marketing and Processing in Small Towns in Zimbabwe - Gutu and Gokwe," in The Rural-Urban Interface in Africa: Expansion and Adaptation, Jonathan Baker and Poul Ove Pederson, (eds.), Uppsala: The Scandinavian Institute of African Studies, 1992, pp. 102-123.

Ryan, Patrick W., "An Evaluation of Small Enterprise Lending: Evidence from Malawi," Research Monograph No. 5, Development and Project Planning Centre, University of Bradford, U. K., April, 1993.